



Intsika Yethu Municipality
Financial statements
for the year ended 30 June 2015

AUDITOR - GENERAL
SOUTH AFRICA

24 NOV 2015

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

General Information

Legal form of entity

The municipality functions as a local municipality, established under Paragraph 151 of the constitution of the Republic of South Africa.

Nature of business and principal activities

Intsika Yethu Municipality is a South African Category C Municipality (Local municipality) as defined by the Municipal Structures Act (No. 117 of 1998).

The municipality's operations are governed by the:

- Municipal Finance Management Act;
- Municipal Systems Act of 2000; and
- Various other Acts and regulations.

Mayoral committee

Mayor

K Vimbayo - Chairperson of executive committee

Councillors

WN Mdwayingana - Portfolio head local economic development

S Myataza - Chief Whip

J Cengani - Speaker/chairperson of council

M Toni - Portfolio head special programs unit

KF Mdleleni - Portfolio head water services provision

K Ntsaluba - Portfolio head corporate services

AT Nkota - Portfolio head community services

HS Nobongoza - Portfolio head budget and treasury

M Shasha - Chairperson of MPAC

N Sindile

NG Baleka

MM Mbebe

ML Papiyana

Z Qayiya

D Kapsile

MH Hewu

P Ngandela

M Mahali

NS Mafanya

FN Dangazele

M Yamile

VG Matomela

W Sobekwa

N Magaga

S Tame

N Ntloko

ZS Matshikiza

N Bani

N Jada

MH Mgodeli

NA Somdyala

M Zulu

NP Gadeni

MA Mbotshane

MI Bikitsha

Z Mxi

S Mkhunyana

M Gulubela

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

General Information

	NA Rotyi N Mto NV Hexana
Grading of local authority	Grade 3
Chief Finance Officer (CFO)	Mr X Ntikinca
Accounting Officer	Mr Zamuxolo Shasha
Business address	Building No. 201 Main Street Cofimvaba 5380
Postal address	Private Bag X 1251 Cofimvaba 5380
Telephone number	(047) 874 8700
Fax number	(047) 874 0010
Bankers	First National Bank ABSA Bank
Auditors	Auditor General South Africa

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

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The reports and statements set out below comprise the financial statements presented to the provincial legislature:

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
AGSA	Auditor General South Africa
SARS	South African Revenue Service
CHDM	Chris Hani District Municipality

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act, 2003 (Act No.56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditor is engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the council sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The financial statements set out on pages 5 to 67, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2015 and were signed by him:

Accounting Officer

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Statement of Financial Position as at 30 June 2015

Figures in Rand	Notes	2015	2014 Restated*
Assets			
Current Assets			
Inventories	3	52 384 631	52 059 652
Receivables from exchange transactions	4	679 642	5 348 332
Receivables from non-exchange transactions	5	1 129 586	1 927 328
VAT receivable	6	4 744 100	1 386 673
Other receivables	7	1 812 524	-
Cash and cash equivalents	8	1 690 009	15 503 080
		62 440 492	76 225 065
Non-Current Assets			
Investment property	9	71 941 859	73 306 000
Property, plant and equipment	10	451 154 314	433 392 094
Intangible assets	11	244 931	287 662
		523 341 104	506 985 756
Non-Current Assets		523 341 104	506 985 756
Current Assets		62 440 492	76 225 065
Total Assets		585 781 596	583 210 821
Liabilities			
Current Liabilities			
Payables from exchange transactions	12	37 507 024	27 917 899
Unspent conditional grants and receipts	13	26 430	-
Provisions	14	3 913 305	3 208 227
Other financial liabilities	15	424 997	512 186
		41 871 756	31 638 312
Non-Current Liabilities			
Other financial liabilities	15	7 646 211	7 971 834
Non-Current Liabilities		7 646 211	7 971 834
Current Liabilities		41 871 756	31 638 312
Total Liabilities		49 517 967	39 610 146
Assets		585 781 596	583 210 821
Liabilities		(49 517 967)	(39 610 146)
Net Assets		536 263 629	543 600 675
Accumulated surplus		536 263 629	543 600 675

* See Note 34

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Statement of Financial Performance

Figures in Rand	Notes	2015	2014 Restated*
Revenue			
Revenue from exchange transactions			
Service charges		588 326	516 624
Rental of facilities and equipment		2 304 927	1 367 281
Interest received		2 192 575	1 798 900
Licences and permits		2 173 032	1 843 170
Pound fees		192 078	104 369
Recoveries		16 062	165 786
Other revenue	17	2 515 165	477 532
Total revenue from exchange transactions		9 982 165	6 273 662
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	18	3 327 344	3 185 593
Transfer revenue			
Government grants and subsidies	19	167 509 731	172 508 631
Fines		223 700	407 506
Total revenue from non-exchange transactions		171 060 775	176 101 730
		9 982 165	6 273 662
		171 060 775	176 101 730
Total revenue		181 042 940	182 375 392
Expenditure			
Personnel costs	20	(78 299 504)	(69 420 651)
Remuneration of councillors	21	(13 027 569)	(12 515 132)
Depreciation and amortisation	22	(30 070 378)	(32 870 106)
Finance costs	23	(538 292)	(546 354)
Debt Impairment	24	(4 670 140)	397 874
Transfer of assets	25	(301 200)	-
Repairs and maintenance		(1 196 924)	(3 059 582)
General expenses	26	(54 959 078)	(43 013 052)
Total expenditure		(183 063 085)	(161 027 003)
		-	-
Total revenue		181 042 940	182 375 392
Total expenditure		(183 063 085)	(161 027 003)
Operating (deficit) surplus		(2 020 145)	21 348 389
Loss on disposal of assets and liabilities		(734 571)	(1 107 088)
(Deficit) surplus before taxation		(2 754 716)	20 241 301
Taxation		-	-
Discontinued operations		(2 754 716)	20 241 301
Discontinued operations	27	(4 582 330)	2 217 762
(Deficit) surplus for the year		(7 337 046)	22 459 063

* See Note 34

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	525 985 295	525 985 295
Prior year adjustments	(4 843 683)	(4 843 683)
Balance at 01 July 2013 as restated*	521 141 612	521 141 612
Surplus for the year	22 459 063	22 459 063
Total changes	22 459 063	22 459 063
Balance at 01 July 2014 as restated*	543 600 675	543 600 675
Deficit for the year	(7 337 046)	(7 337 046)
Total changes	(7 337 046)	(7 337 046)
Balance at 30 June 2015	536 263 629	536 263 629

* See Note 34

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Cash Flow Statement

Figures in Rand	Notes	2015	2014 Restated*
Cash flows from operating activities			
Receipts			
Grants		167 536 161	163 044 857
Interest income		2 192 575	1 798 900
Other receipts		6 439 948	6 061 694
Cash generated by discontinued operations		-	27 472 235
		<u>176 168 684</u>	<u>198 377 686</u>
Payments			
Employee costs		(88 515 454)	(77 300 182)
Finance costs		(129 425)	(108 959)
Cash paid to suppliers		(49 140 990)	(46 427 767)
Cash utilised by discontinued operations		-	(25 960 225)
		<u>(137 785 869)</u>	<u>(149 797 133)</u>
Total receipts		176 168 684	198 377 686
Total payments		(137 785 869)	(149 797 133)
Net cash flows from operating activities	28	<u>38 382 815</u>	<u>48 580 553</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(51 213 811)	(40 325 997)
Proceeds on disposal of investment property	9	-	13 625
Proceeds from disposal of inventory		-	62 209
Purchase of other intangible assets	11	(160 400)	(39 100)
Net cash flows from investing activities		<u>(51 374 211)</u>	<u>(40 289 263)</u>
Cash flows from financing activities			
Repayment of borrowings		(821 675)	(694 130)
Net increase in cash and cash equivalents		<u>(13 813 071)</u>	<u>7 597 160</u>
Cash and cash equivalents at the beginning of the year		15 503 080	7 905 920
Cash and cash equivalents at the end of the year	8	<u>1 690 009</u>	<u>15 503 080</u>

* See Note 34

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Note
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	(233 890)	-	(233 890)	(588 326)	(354 436)	N1
Rental of facilities and equipment	(555 931)	(11 500)	(567 431)	(2 304 927)	(1 737 496)	N2
Interest received	(298 558)	-	(298 558)	(2 192 575)	(1 894 017)	N3
Licences and permits	(1 782 194)	(3 300)	(1 785 494)	(2 173 032)	(387 538)	N4
Pound fees	(76 579)	-	(76 579)	(192 078)	(115 499)	N5
Recoveries	-	-	-	(16 062)	(16 062)	N6
Other revenue	1 131 527	(1 402 133)	(270 606)	(2 515 165)	(2 244 559)	N7
Total revenue from exchange transactions	(1 815 625)	(1 416 933)	(3 232 558)	(9 982 165)	(6 749 607)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	(4 865 252)	2 536 512	(2 328 740)	(3 327 344)	(998 604)	N8
Transfer revenue						
Government grants & subsidies	(165 238 000)	(2 032 923)	(167 270 923)	(167 509 731)	(238 808)	N9
Fines	(250 000)	-	(250 000)	(223 700)	26 300	N10
Total revenue from non-exchange transactions	(170 353 252)	503 589	(169 849 663)	(171 060 775)	(1 211 112)	
'Total revenue from exchange transactions'	(1 815 625)	(1 416 933)	(3 232 558)	(9 982 165)	(6 749 607)	
'Total revenue from non-exchange transactions'	(170 353 252)	503 589	(169 849 663)	(171 060 775)	(1 211 112)	
Total revenue	(172 168 877)	(913 344)	(173 082 221)	(181 042 940)	(7 960 719)	
Expenditure						
Personnel costs	63 179 390	530 730	63 710 120	78 299 504	14 589 384	N11
Remuneration of councillors	13 470 944	(273 081)	13 197 863	13 027 569	(170 294)	N12
Depreciation and amortisation	35 000 000	-	35 000 000	30 070 378	(4 929 622)	N13
Finance costs	1 000 000	148 232	1 148 232	538 292	(609 940)	N14
Debt impairment	1 700 000	-	1 700 000	4 670 140	2 970 140	N15
Transfer of assets	-	-	-	301 200	301 200	N16
Repairs and maintenance	5 196 010	(2 485 177)	2 710 833	1 196 924	(1 513 909)	N17
General Expenses	52 283 324	1 837 982	54 121 306	54 959 078	837 772	N18
Total expenditure	171 829 668	(241 314)	171 588 354	183 063 085	11 474 731	
	(172 168 877)	(913 344)	(173 082 221)	(181 042 940)	(7 960 719)	
	171 829 668	(241 314)	171 588 354	183 063 085	11 474 731	
Operating surplus	(339 209)	(1 154 658)	(1 493 867)	2 020 145	3 514 012	
Loss on disposal of assets and liabilities	-	1 000 000	1 000 000	734 571	(265 429)	N19
	(339 209)	(1 154 658)	(1 493 867)	2 020 145	3 514 012	
	-	1 000 000	1 000 000	734 571	(265 429)	
Surplus before taxation	(339 209)	(154 658)	(493 867)	2 754 716	3 248 583	
Surplus before taxation	(339 209)	(154 658)	(493 867)	(2 754 716)	(2 260 849)	

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Note
Figures in Rand						
Taxation	-	-	-	-	-	
Deficit for the year from continuing operations	(339 209)	(154 658)	(493 867)	(2 754 716)	(2 260 849)	
Discontinued operations	-	-	-	(4 582 330)	(4 582 330)	N15
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(339 209)	(154 658)	(493 867)	(7 337 046)	(6 843 179)	
	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	
Capital expenditure	57 616 999	(5 701 151)	51 915 848	51 374 210	(869 998)	N20

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Note
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Figures in Rand

N1 - The budget for service charges was incorrect from the onset as it was not in line with prior year actuals.

N2 - The municipality was previously charging rates on properties that it owned, however this was changed to rental income during the year. The rental agreements were reviewed during the year and it was found that some businesses were not being billed the correct amounts. This was corrected resulting in the increase during the year.

N3 - Budget was based on the prior year, however not all interest was raised in prior year.

N4 - Fewer licences and permits were issued during the year.

N5 - Over recovery of pound fees during the year.

N6 - Recoveries were not budgeted for.

N7 - Unallocated deposits of R2.2 million were recognised as revenue during the year, which was not included in the budget.

N8 - A higher budget was estimated due to the new valuation roll, however the increase in the valuation roll was not substantial. Furthermore, previously the municipality was charging rates on properties that were owed by the municipality. This has subsequently been corrected and the income is reflected as rental.

N9 - Variance not significant.

N10 - Fines are dependant on people paying the fine and fewer payments were received during the year.

N11 - There were additional acting allowances and overtime paid during the year. Budget was incorrectly underestimated from onset as the budget was significantly reduced from prior year actuals.

N12 - Variance not material.

N13 - Budget was based on an estimate. Water services assets were transferred out and prior year adjustments were made to cost of assets, reducing the actual depreciation for the year.

N14 - The budget for interest paid incorrectly included the total repayment and not just the interest portion.

N15 - Estimate was based on prior year. A higher percentage of receivables were impaired in the current year. This was further impacted by the interest being charged in the current year which had to be provided for.

N16 - Amount relates to transfer of assets to Chris Hani District Municipality. The amount was not budget for.

N17 - Some of the costs included under repairs and maintenance were capitalised to WIPS projects, resulting in a decrease in the expenditure.

N18 - Variance not significant.

N19 - There are a number of properties that are in the process of being sold, however transfer has not yet taken place. Revenue is only recognised when the transfer takes place.

N20 - Variance not significant.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, 2003 (Act No.56 of 2003).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

Those standards of GRAP and interpretations of such standards applicable to the operations of the municipality, are therefore as follows:

- GRAP 1 - Presentation of Financial Statements (as revised in 2012)
- GRAP 2 - Cash Flow Statements (as revised in 2010)
- GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2012)
- GRAP 5 - Borrowing Costs
- GRAP 9 - Revenue from Exchange Transactions (as revised in 2012)
- GRAP 11 - Construction Contracts (as revised in 2010)
- GRAP 12 - Inventories (as revised 2012)
- GRAP 13 - Leases (as revised 2012)
- GRAP 14 - Events after reporting date (as revised 2010)
- GRAP 16 - Investment property (as revised 2012)
- GRAP 17 - Property, Plant and Equipment (as revised 2012)
- GRAP 19 - Provision, Contingent Liability, Contingent Asset (as revised 2010)
- GRAP 21 - Impairment of Non-cash Generating Assets
- GRAP 23 - Revenue from Non-exchange Transactions (Taxes and Transfers)
- GRAP 24 - Presentation of Budget Information in Financial Statements
- GRAP 25 - Employee Benefits
- GRAP 26 - Impairment of Non-cash Generating Assets
- GRAP 31 - Intangible Assets
- GRAP 100 - Non-current Assets Held For Sale and Discontinued Operations (as revised in 2010)
- GRAP 103 - Heritage Assets
- GRAP 104 - Financial Instruments

Standards issued, future effective dates can base accounting policies on, or early adopt:

- GRAP 18 - Segmental reporting
- GRAP 20 - Related party disclosure
- GRAP 105 - Transfer of functions between entities under common control
- GRAP 106 - Transfer of functions between entities not under common control
- GRAP 107 - Mergers
- GRAP 108 - Standard of GRAP on statutory receivables
- IGRAP 17 - Service concession arrangements where a grantor controls a significant residual interest in an asset
- Improvements to standards of GRAP

Interpretations:

- IGRAP 1 - Applying the probability test in initial recognition of exchange revenue
- IGRAP 2 - Change in existing decommissioning, restoration and similar liabilities
- IGRAP 3 - Determining whether an arrangement contains a lease
- IGRAP 4 - Rights to interest arising from decommissioning, restoration and environmental rehabilitation funds
- IGRAP 8 - Agreement for the construction of assets from exchange transactions
- IGRAP 10 - Assets received from customers
- IGRAP 13 - Operating leases - incentive
- IGRAP 14 - Evaluating the substance of transactions involving the legal form of a lease
- IGRAP 16 - Intangible assets - Website costs (effective 1 April 2013)

1.1 Presentation currency

These financial statements are presented in South African Rand, which is the functional currency of the municipality.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.2 Going concern assumption

These financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

Trade and other receivables

The municipality assesses its trade and other receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the management makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade and other receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Depreciation and amortisation

Depreciation and amortisation recognised on property, plant and equipment and intangible assets are determined with reference to the useful lives and residual values of the underlying items. The useful lives and residual values of the assets are based on management's estimation of the asset's condition, expected condition at the end of the period of use, its current use, expected future use and the entity's expectations about the availability of finance to replace the asset at the end of its useful life. In evaluating how the condition and use of the asset informs the useful life and residual value management considers the impact of technology and minimum service requirements of the assets.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.4 Investment property (continued)

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	Indefinite
Property - buildings	30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services or for administrative purposes, and are expected to be used during more than one reporting period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or assets, or a combination of assets and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up. When significant components of items of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised. All other costs are recognised in the income statement as an expense as incurred.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.5 Property, plant and equipment (continued)

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses. Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Landfill sites	25 years
Buildings	
• Mobile offices	10 years
• Other	30 - 50 years
Computer equipment	5 - 7 years
Plant and machinery	5 - 15 years
Furniture and office equipment	
• Paintings	15 years
• Other	7 - 15 years
Motor vehicles	10 - 15 years
Infrastructure assets	
• Roads and paving	5 - 135 years
Community assets	
• Halls	15 - 50 years
• Libraries	15 - 30 years
Parks and recreation	15 - 70 years
Wastewater network	10 - 30 years
Electricity	20 - 30 years
Land	Indefinite

The residual value, the useful life and depreciation method of each asset are reviewed at least at each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

When the use of property changes from owner-occupied to investment property, the property is re-measured to fair value and reclassified as investment property. Any gain arising on re-measurement is recognised in surplus or deficit to the extent the gain reverses a previous impairment loss on the specific property, with any remaining gain recognised in the statement of changes in net assets.

Incomplete construction work

Incomplete construction work in progress is stated at historical cost. Depreciation only commences when the asset is available for use.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.5 Property, plant and equipment (continued)

Infrastructure assets

Infrastructure assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Intsika Yethu Municipality

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Accounting Policies

1.7 Intangible assets (continued)

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3 - 5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the municipality.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.8 Financial instruments (continued)

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.8 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at fair value

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost
Unspent conditional grants	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.8 Financial instruments (continued)

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Accounting Policies

1.9 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease if it is practicable to determine. If not the rate for the government bond with a maturity similar to the lease is used.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

Income for leases is disclosed under revenue in the statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Intsika Yethu Municipality

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Accounting Policies

1.11 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Intsika Yethu Municipality

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.12 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an oversized or overcapacity asset. Oversized assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.13 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Accounting Policies

1.13 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

Accounting Policies

1.14 Provisions and contingencies (continued)

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 32.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.15 Revenue from exchange transactions (continued)

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Finance income

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Tariff charges, licences and permits

Revenue arising from the application of approved tariffs is recognised when the service is rendered by applying the relevant authorised tariff. This includes licences and permits.

Rentals

Revenue from rental of facilities and equipment classified as operating leases is recognised over the term of the lease agreement, where such terms spans over more than one year a straight-line basis is used.

1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Government grants

Income received from conditional grants, donations and funding recognised as revenue in the statement of financial performance to the extent that the municipality has complied with all the criterias or conditions attached to the funding. Where the conditions or criterias are not fully met, a liability is recognised in the statement of financial position.

Government grants that are received as compensation for expenses or losses incurred or for the purpose of giving immediate financial support with no future related conditions to be fulfilled are recognised in the statement of financial performance in the year in which they have been received.

Interest earned from investment of grant money is treated in accordance with the grant conditions. If it is payable to the funder it is recognised as a liability in the statement of financial position. If the interest is not payable to the funder it will be recognised as interest income or other income in the statement of financial performance of the period to which it was earned.

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of revenue can be measured reliably; and
- to the extent that the conditions have been discharged and there has been compliance with any restrictions associated with the grant.

Other grants and donations

The municipality transfers money to individuals or organisations and other sectors of government from time to time, when making these transfers the municipality does not:

- receive any goods or services in return as would be expected in a purchase or sale transaction;
- expect to be repaid in future; and
- expect a financial return as would be expected from an investment.

1.17 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.18 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.19 Discontinued operations

Discontinued operations is a component with separate operations and cash flows that can be clearly distinguishable, operationally and for financial reporting purposes, that has been disposed of and represents a distinguishable activity, group of activities or geographical area of operations, or is a controlled entity acquired exclusively with the view to resale.

Discontinued operations are shown separately from continued operations on the face of the statement of financial performance. Comparative figures are also reflected accordingly.

1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. The nature and reason for the reclassification are disclosed in the comparative figure note to the financial statements.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.21 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.
- expenditure not in accordance with the purpose of the conditional grant.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.24 Events after reporting period

Events after the reporting date that are classified as adjusting events have been accounted for in the financial statements. Non-adjusting events have been disclosed in the notes to the financial statements.

1.25 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a standard of GRAP.

1.26 Commitments

Items are classified as commitments when the Municipality has committed itself to future transactions that will normally result in an outflow of resources, embodying economic benefits or service potential. A commitment is disclosed to the extent that it has not already been recognised anywhere else in the financial statements.

At the end of each financial reporting period the Municipality determines commitments in respect of capital expenditure that has been approved and contracted for which is then disclosed in the commitment note to the financial statements.

1.27 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2014-07-01 to 2015-06-30.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.27 Budget information (continued)

Comparative information is not required.

1.28 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.29 Value Added Tax (VAT)

Revenue, expenses and assets are recognised net of VAT. The net amount of VAT recoverable from, or payable to SARS is included as part of receivables or payables in the statement of financial position.

Municipality accounts for VAT on a payments basis.

1.30 Changes in accounting policy, estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 - Accounting policies, changes in accounting estimates and errors, requirements except to the extent that it is impracticable to determine the period-specific effects or the accumulated effect of the change in policy. In such cases the municipality shall restate the opening balances of the assets and liabilities and net assets for the earliest period for which a retrospective restatement is practicable. Details of the change in accounting policy are disclosed in the notes to the financial statements where applicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of change in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 except to the extent it is impracticable to determine the period specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of the assets and liabilities and net assets for the earliest period for which retrospective treatment is practicable. Details of the prior errors are disclosed in the notes to the financial statements where applicable.

Notes to the Financial Statements

2. New standards and interpretations

GRAP 105: Transfers of functions between entities under common control

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality expects to adopt the standard for the first time in the 2016 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2015 or later periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions on the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality expects to adopt the standard for the first time in the 2016 financial statements.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

GRAP 106: Transfers of functions between entities not under common control

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

Notes to the Financial Statements

2. New standards and interpretations (continued)

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality expects to adopt the standard for the first time in the 2016 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

GRAP 107: Mergers

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality expects to adopt the standard for the first time in the 2016 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
 - has control or joint control over the reporting entity;
 - has significant influence over the reporting entity;
 - is a member of the management of the entity or its controlling entity.

Notes to the Financial Statements

2. New standards and interpretations (continued)

- An entity is related to the reporting entity if any of the following conditions apply:
 - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
 - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
 - both entities are joint ventures of the same third party;
 - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
 - the entity is controlled or jointly controlled by a person identified in (a); and
 - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 financial statements.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements

The definition of 'minority interest' has been amended to 'non-controlling interest', and paragraph .60 was added by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

Paragraph .59 was amended by Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107] from the date at which it first applied the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .03, .39, .47 to .50 and added paragraphs .51 to .58 and .61 to .62. An entity shall apply these amendments when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

An entity shall apply this amendment for financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

The municipality expects to adopt the amendment for the first time in the 2016 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

Notes to the Financial Statements

2. New standards and interpretations (continued)

GRAP 7 (as revised 2010): Investments in Associates

Paragraphs .03 and .42 were amended by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .22, .28 and .38 and added paragraph .24. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

An entity shall apply this amendment for financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

The municipality expects to adopt the amendment for the first time in the 2016 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

DIRECTIVE 11: Changes in measurement bases following the initial adoption of Standards of GRAP

The objective of this Directive is to permit an entity to change its measurement bases following the initial adoption of Standards of GRAP. The change is based on the principles in the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors. This Directive should therefore be read in conjunction with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

In applying paragraph 13(b) of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors, this Directive allows an entity, that has initially adopted the fair value model for investment property or the revaluation model for property, plant and equipment, intangible assets or heritage assets, to change its accounting policy on a once-off basis to the cost model when the entity elects to change its accounting policy following the initial adoption of these Standards of GRAP. The once-off change will be allowed when the entity made an inappropriate accounting policy choice on the initial adoption of the Standards of GRAP.

Subsequent to the application of this Directive, an entity will be allowed to change its accounting policy in future periods subject to it meeting the requirements in the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 financial statements.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

GRAP32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

GRAP108: Statutory Receivables

Notes to the Financial Statements

2. New standards and interpretations (continued)

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

The aggregate impact of the initial application of the statements and interpretations on the municipality's financial statements is expected to be as follows:

3. Inventories

Water	-	301 424
Properties held for sale	52 384 631	51 758 228
	52 384 631	52 059 652

Inventory relates to property held for sale. The water reserves were transferred to CHDM on 01 July 2014, refer to note 27.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
4. Receivables from exchange transactions		
Trade debtors	3 893 578	12 891 947
Provision for impairment	(3 361 185)	(8 113 861)
Reallocation of receivables with credit balances to trade payables	147 249	570 246
	679 642	5 348 332

Trade and other receivables from exchange transactions

2015

	0 - 30 days	31 - 60 days	61 - 90 days	> 90 days	Total
Business	132 330	52 252	50 413	1 395 188	1 630 183
Government Departments	76 235	75 711	75 401	675 790	903 137
Rental debtors	31 974	21 494	31 779	294 889	380 136
Other	1 746	1 598	1 729	125 166	130 239
Residential	18 096	19 480	19 512	721 641	778 729
Vacant land	1 492	740	1 533	67 389	71 154
	261 873	171 275	180 367	3 280 063	3 893 578

Debtors by revenue type

	0 - 30 days	31 - 60 days	61 - 90 days	> 90 days	Total
Service charges	112 341	73 475	77 375	1 407 109	1 670 300
Rental income	149 532	97 800	102 992	1 872 954	2 223 278
	261 873	171 275	180 367	3 280 063	3 893 578

2014

	0 - 30 days	31 - 60 days	61 - 90 days	> 90 days	Total
Business	186 969	107 766	115 332	3 698 059	4 108 126
Government Departments	216 419	261 070	262 198	2 805 361	3 545 048
Municipal properties	9 250	4 877	9 748	216 005	239 880
Rental Debtors	231 695	19 233	5 456	188 151	444 535
Residential	122 362	89 066	109 850	3 461 997	3 783 275
Vacant land	34 963	26 671	28 092	681 357	771 083
	801 658	508 683	530 676	11 050 930	12 891 947

Debtors by revenue type

	0 - 30 days	31 - 60 days	61 - 90 days	> 90 days	Total
Services charges	126 920	114 833	114 070	1 363 974	1 719 797
Rental income	238 997	18 389	9 748	203 675	470 809
Water	435 741	375 461	406 858	9 483 281	10 701 341
	801 658	508 683	530 676	11 050 930	12 891 947

Trade and other receivables past due but not impaired

At 30 June 2015, R362 063 (2014: R4 644 786) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

0 - 30 Days	165 305	436 990
31 - 60 Days	80 769	374 577
61 - 90 Days	90 829	335 145
> 90 days	25 160	3 498 074

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
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4. Receivables from exchange transactions (continued)

Trade and other receivables impaired

As of 30 June 2015, trade and other receivables of R3 531 515 (2014: R8 201 503) were impaired and provided for.

The amount of the provision was R3 361 185 as of 30 June 2015 (2014: R8 113 861).

The ageing of these receivables is as follows:

0 - 30 Days	96 567	134 921
31 - 60 Days	90 506	118 161
61 - 90 Days	89 538	179 684
> 90 days	3 254 904	7 768 737

Reconciliation of provision for impairment of trade and other receivables

Opening balance	8 113 861	6 455 033
Provision for impairment	2 064 208	1 658 828
Transferred to Chris Hani District Municipality	(6 816 884)	-
	3 361 185	8 113 861

5. Receivables from non-exchange transactions

Property rates receivable	6 471 248	4 697 108
Reallocation of receivables with credit balances to trade payables	244 732	210 682
Impairment of trade and other receivables	(5 586 394)	(2 980 462)
	1 129 586	1 927 328

Receivables from non-exchange transactions

2015

	0 - 30 Days	31 - 60 Days	61 - 90 Days	> 90 days	Total
Business	219 936	86 844	83 789	2 318 845	2 709 414
Government Departments	126 704	125 834	125 319	1 123 185	1 501 042
Other	2 903	2 656	2 873	208 030	216 462
Rental debtors	53 142	35 724	52 818	490 114	631 798
Residential	30 076	32 377	32 429	1 199 390	1 294 272
Vacant land	2 481	1 230	2 547	112 002	118 260
	435 242	284 665	299 775	5 451 566	6 471 248

Debtors by revenue type

	0 - 30 Days	31 - 60 Days	61 - 90 Days	> 90 days	Total
Property rates	435 242	284 665	299 775	5 451 566	6 471 248

2014

	0 - 30 Days	31 - 60 Days	61 - 90 Days	> 90 days	Total
Business	75 232	85 837	59 329	1 245 544	1 465 942
Government Departments	185 882	134 437	137 016	814 599	1 271 934
Vacant land	2 684	2 856	947	73 697	80 184
Other	(6 479)	3 393	3 978	157 023	157 915
Rental debtors	21 256	11 208	22 402	496 863	551 729
Residential	34 344	34 931	30 110	1 070 019	1 169 404
	312 919	272 662	253 782	3 857 745	4 697 108

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

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5. Receivables from non-exchange transactions (continued)

Debtors by revenue type	0 - 30 Days	31 - 60 Days	61 - 90 Days	> 90 days	Total
Property rates	312 919	272 661	253 782	3 857 746	4 697 108

Receivables from non-exchange transactions past due but not impaired

At 30 June 2015, R601 759 (2014: R1 568 155) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

0 - 30 Days	274 743	476 924
31 - 60 Days	134 240	228 095
61 - 90 Days	150 960	197 522
> 90 days	41 816	665 613

Receivables from non-exchange transactions impaired

As of 30 June 2015, other receivables from non-exchange transactions of R5 869 488 (2014: R3 181 863) were impaired and provided for.

The amount of the provision was R5 586 393 (2014: R2 980 462).

The ageing of these receivables is as follows:

0 - 30 Days	160 498	65 742
31 - 60 Days	150 424	60 511
61 - 90 Days	148 815	72 106
> 90 days	5 409 750	2 983 504

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	2 980 462	3 136 903
Provision for impairment	2 605 931	(156 441)
	5 586 393	2 980 462

6. VAT receivable

VAT receivable	4 744 100	1 386 673
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7. Other receivables

Refund due from CHDM	1 812 524	-
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The refund due from CHDM relates to payments made, less income received, after 1 July 2014 for the water services function. As disclosed in note 26, the water services function, along with the related assets and liabilities, was transferred to CHDM with effect from 1 July 2014.

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	19 040	41 936
Bank balances	348 336	4 595 792
Short-term deposits	1 322 633	10 865 352
	1 690 009	15 503 080

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
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8. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2015	30 June 2014	30 June 2013	30 June 2015	30 June 2014	30 June 2013
FNB 62022331003 (Cheque)	374 682	3 070 668	1 987 547	348 336	2 608 185	1 896 574
FNB 62101651398 (Cheque)	67 552	6 546 141	4 163 942	67 552	6 546 141	4 163 942
FNB 62022332316 (Money mkt)	78 249	3 580 088	333 000	78 249	3 580 088	322 790
FNB 62090678320 (Money mkt)	122 146	17 466	44 089	122 146	17 466	44 090
FNB 62240443820 (Cheque)	173 539	1 987 607	621 235	173 539	1 987 607	621 235
ABSA 961149096 (32 day call)	683 954	661 484	643 410	683 954	661 484	643 411
FNB 62026740549 (Money mkt)	3 949	28 789	28 471	3 949	28 789	28 471
FNB 62027101245 (Money mkt)	173 192	26 851	127 994	173 192	26 851	127 995
FNB 62160167500 (Money mkt)	20 052	4 533	40 632	20 052	4 533	40 633
Total	1 697 315	15 923 627	7 990 320	1 670 969	15 461 144	7 889 141

9. Investment property

	2015			2014 Restated*		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	75 236 098	(3 294 239)	71 941 859	76 036 419	(2 730 419)	73 306 000

Reconciliation of investment property - 2015

	Opening balance	Disposals	Depreciation	Total
Investment property	73 306 000	(734 285)	(629 856)	71 941 859

Reconciliation of investment property - 2014

	Opening balance	Disposals	Depreciation	Total
Investment property	73 865 846	(13 625)	(546 221)	73 306 000

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

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10. Property, plant and equipment

	2015			2014 Restated*		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	64 143 967	(6 300 357)	57 843 610	64 143 967	(5 147 779)	58 996 188
Plant and machinery	36 667 534	(16 208 589)	20 458 945	32 449 514	(13 953 372)	18 496 142
Motor vehicles	10 517 917	(1 614 192)	8 903 725	6 059 207	(1 071 630)	4 987 577
Office equipment	3 972 866	(2 549 108)	1 423 758	4 540 863	(2 281 558)	2 259 305
Computer equipment	2 144 483	(1 254 636)	889 847	2 169 029	(1 304 444)	864 585
Infrastructure	363 530 806	(156 805 954)	206 724 852	358 945 887	(133 720 956)	225 224 931
Community	25 028 683	(3 787 021)	21 241 662	25 432 075	(3 370 151)	22 061 924
Work in progress	121 972 767	-	121 972 767	92 905 042	-	92 905 042
Electricity	4 856 330	(264 987)	4 591 343	993 696	(220 823)	772 873
Landfill site	792 862	(52 255)	740 607	185 856	(13 275)	172 581
Park facilities	7 503 653	(1 482 233)	6 021 420	7 503 653	(1 238 250)	6 265 403
Wastewater network	732 964	(391 186)	341 778	732 964	(347 421)	385 543
Total	641 864 832	(190 710 518)	451 154 314	596 061 753	(162 669 659)	433 392 094

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Buildings	58 996 188	-	-	-	(1 152 578)	57 843 610
Plant and machinery	18 496 142	5 091 730	(250 680)	(404 309)	(2 473 938)	20 458 945
Motor vehicles	4 987 577	4 642 920	(122 873)	-	(603 899)	8 903 725
Furniture and office equipment	2 259 305	28 723	(143 426)	(204 628)	(516 216)	1 423 758
Computer equipment	864 585	449 161	(109 708)	(47 532)	(266 659)	889 847
Road transport	225 224 931	7 463 911	-	(2 629 846)	(23 334 144)	206 724 852
Community	22 061 924	-	-	(301 199)	(519 063)	21 241 662
Work in progress	92 905 042	40 394 271	-	(11 326 546)	-	121 972 767
Electricity	772 873	3 862 634	-	-	(44 164)	4 591 343
Landfill site	172 581	607 005	-	-	(38 979)	740 607
Parks and recreation	6 265 403	-	-	-	(243 983)	6 021 420
Wastewater network	385 543	-	-	-	(43 765)	341 778
Total	433 392 094	62 540 355	(626 687)	(14 914 060)	(29 237 388)	451 154 314

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

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10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Transfers	Depreciation	Total
Buildings	59 976 987	-	-	(980 799)	58 996 188
Plant and machinery	20 032 000	750 510	-	(2 286 368)	18 496 142
Motor vehicles	4 699 309	718 872	-	(430 604)	4 987 577
Office equipment	2 778 884	101 470	-	(621 049)	2 259 305
Computer equipment	827 181	301 600	-	(264 196)	864 585
Road transport	246 217 907	5 844 844	-	(26 837 820)	225 224 931
Community	22 587 277	8 640	-	(533 993)	22 061 924
Work in progress	60 304 981	39 894 233	(7 294 172)	-	92 905 042
Electricity	817 037	-	-	(44 164)	772 873
Landfill site	175 236	-	-	(2 655)	172 581
Parks and recreation	6 513 053	-	-	(247 650)	6 265 403
Wastewater network	439 200	-	-	(53 657)	385 543
	425 369 052	47 620 169	(7 294 172)	(32 302 955)	433 392 094

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Assets with a carrying value of R351 593 could not be found. The municipality is in the process of investigating the reasons why these assets could not be found and further action will be taken as a result of the investigation.

11. Intangible assets

	2015			2014 Restated*		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	779 605	(534 674)	244 931	619 205	(331 543)	287 662

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer software, other	287 662	160 401	(203 132)	244 931

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Amortisation	Total
Computer software, other	447 100	39 100	(198 538)	287 662

Intsika Yethu Municipality

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Notes to the Financial Statements

Figures in Rand	2015	2014
12. Payables from exchange transactions		
Trade payables	20 843 104	13 129 100
Third party payments	4 535 596	3 106 041
Unallocated receipts	1 204 490	3 102 668
Accrued bonus	1 390 740	1 590 491
Sundry payables	3 792 210	1 855 612
Accrued leave	5 740 884	5 133 987
	37 507 024	27 917 899
13. Unspent conditional grants and receipts		
Unspent conditional grants comprises of:		
Unspent conditional grants and receipts		
Integrated National Electrification Programme Grant	26 430	-
Movement during the year		
Additions during the year	49 344 276	59 822 356
Income recognition during the year	(49 317 846)	(59 822 356)
	26 430	-
Non-current liabilities	-	-
Current liabilities	26 430	-
	26 430	-

See note 19 for reconciliation of grants from National/Provincial Government and conditions of the grants.

These amounts are invested in a ring-fenced investment until utilised.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

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14. Provisions

Reconciliation of provisions - 2015

	Opening Balance	Additions	Change in estimate	Total
Environmental rehabilitation - landfill site	219 227	13 072	607 006	839 305
Provision for long service	2 989 000	85 000	-	3 074 000
	3 208 227	98 072	607 006	3 913 305

Reconciliation of provisions - 2014

	Opening Balance	Additions	Total
Environmental rehabilitation - landfill sites	213 195	6 032	219 227
Provision for long service	2 436 000	553 000	2 989 000
	2 649 195	559 032	3 208 227

Environmental rehabilitation provision

The provision relates to the rehabilitation of landfill sites.

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of the future obligation using an interest rate of 2.8%.

The expected life of the Cofimvaba landfill site is projected to be 19 years from 30 June 2015. The interest rate for the landfill site is 2.03% for 2014/15.

Provision for long service

This provision relates to expected outflows of economic benefits associated with paying employees that have completed a cycle of 5 years in the employ of the municipality.

15. Other financial liabilities

DBSA loan

Long - term borrowings	7 646 211	7 971 834
Short - term borrowings	424 997	512 186
	8 071 208	8 484 020

The loan is 20 years at a fixed interest rate of 5%. The capital is repayable in 40 equal six - monthly instalments, commencing on the last day of the first half of the year during which the first disbursement was advanced to the Borrower. Penalty interest shall be calculated with regard to actual period during which the amount payable remain unpaid, at a fixed interest rate of the loan, 5% plus 2 % (p.a). Penalty interest shall be compounded six- monthly (01 April to 30 September, and /or , 01 October to 31 March during the next calendar year), payable on demand.

Furthermore paragraph 10.1 of the agreement states that, DBSA shall be entitled, after giving the borrower 30 days written notice, to suspend drawdowns from the loan or to terminate this agreement and to claim from the borrower immediate payment from the outstanding amount should the borrower commit any breach of this agreement.

16. Change in Accounting Estimate

The site life of the landfill site was estimated in 2014 to be 66 years. At the beginning of the current period the expert revised their estimate from 66 years to 20 years. In addition, there was a change in the net discount rate from 2.83% in 2014 to 2.03% in 2015.

The effect of this revision has increased the landfill site asset and the landfill site liability by R607 006 each. The depreciation charge for the current and the future period has increased by R36 324. The interest charge has increased by R6 870 in the current period.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
17. Other revenue		
Other income	219 130	425 810
Administration fees	71 925	50 360
Insurance refunds	32 804	-
Unallocated deposits revenue	2 191 306	1 362
	2 515 165	477 532

18. Property rates

Rates received

Property rates	3 327 344	3 185 593
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Valuations

Residential	72 504 400	69 649 700
Commercial	144 148 900	149 059 500
State	153 673 600	174 472 900
Municipal	229 290 800	225 277 609
Placement of worship	6 499 000	6 245 700
Private service infrastructure	105 800	55 605
Agriculture properties	17 876 801	14 792 722
Vacant land	9 953 800	13 903 548
Schools	2 751 000	3 130 000
Public Benefit Organisation	13 376 300	13 050 000
	650 180 401	669 637 284

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

19. Government grants and subsidies

Equitable share	115 520 000	99 780 000
CHDM grants	2 595 585	12 906 276
FMG	1 600 000	1 550 000
LG SETA	181 616	876 709
MIG	38 856 000	36 043 315
Integrated National Electrification Programme	5 973 530	19 462 331
MSIG	934 000	890 000
EPWP	1 849 000	1 000 000
	167 509 731	172 508 631

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	49 394 146	59 822 356
Unconditional grants received	118 115 585	112 686 275
	167 509 731	172 508 631

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
19. Government grants and subsidies (continued)		
Equitable Share		
Current year receipts	115 520 000	99 780 000
Amount transferred to revenue	(115 520 000)	(99 780 000)
	-	-
Municipal Infrastructure Grant		
Balance unspent at beginning of year	-	1 001 395
Current year receipts	38 856 000	35 041 920
Conditions met - transferred to revenue	(38 856 000)	(36 043 315)
	-	-
The grant was received from National Treasury for infrastructural development purposes.		
LG SETA		
Current year receipts	181 616	876 709
Conditions met - transferred to revenue	(181 616)	(876 709)
	-	-
The grant was received from the Department of Local Government for training purposes.		
Integrated National Electrification Programme		
Balance unspent at beginning of year	-	8 462 331
Current-year receipts	5 999 960	11 000 000
Conditions met - transferred to revenue	(5 973 530)	(19 462 331)
	26 430	-
Conditions still to be met - remain liabilities (see note 13).		
The grant was received from National Treasury for electrification of the community.		
Financial Management Grant		
Current-year receipts	1 600 000	1 550 000
Conditions met - transferred to revenue	(1 600 000)	(1 550 000)
	-	-
The grant was received from National Treasury for financial management support.		
Municipal Systems Improvement Grant		
Current-year receipts	934 000	890 000
Conditions met - transferred to revenue	(934 000)	(890 000)
	-	-
The grant was received for infrastructure improvement purpose.		

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
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19. Government grants and subsidies (continued)

Chris Hani District Municipality Grants

Current-year receipts	2 595 585	12 906 276
Conditions met - transferred to revenue	(2 595 585)	(12 906 276)
	-	-

The grant was received from Chris Hani District Municipality for operations and is not conditional.

Extended Public Works Programme Grant

Current-year receipts	1 849 000	1 000 000
Conditions met - transferred to revenue	(1 849 000)	(1 000 000)
	-	-

The grant was received from Department of Public Works for the Extended Public Works Programme.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, 2015 (Act No. 1 of 2015), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
20. Personnel costs		
Basic	62 762 203	55 114 132
Bonus	3 729 278	2 877 877
SDL	1 218 564	1 024 490
Leave pay provision charge	1 465 250	1 269 084
Travel, motor car, accommodation, subsistence and other allowances	1 158 080	1 650 580
Overtime payments	1 678 020	1 950 009
Long-service awards	85 000	553 000
Acting allowances	648 867	169 017
Housing benefits and allowances	5 554 242	4 812 462
	78 299 504	69 420 651

Remuneration of key management

2015	Basic salary	Performance bonus	Allowances	Total
Mr Z Shasha	711 895	75 648	523 716	1 311 259
Mrs Y Mniki - (Resigned 31/07/2014)	52 485	105 170	127 675	285 330
Ms Mahlati	629 818	114 732	459 753	1 204 303
Mr S Koyo	629 818	47 805	471 379	1 149 002
Mr K Maceba	629 818	105 170	477 243	1 212 231
Mr X Ntकिनca	629 818	-	489 202	1 119 020
	3 283 652	448 525	2 548 968	6 281 145

2014	Basic salary	Performance bonus	Allowances	Total
Mr Z Shasha	648 415	129 484	467 594	1 245 493
Mr M Dyushu - (Resigned 31/10/2013)	255 983	61 684	142 902	460 569
Mrs Y Mniki	573 658	88 119	425 451	1 087 228
Ms Mahlati	584 051	105 743	422 805	1 112 599
Mr S Koyo	691 481	88 119	459 955	1 239 555
Mr K Maceba	595 446	61 684	421 355	1 078 485
Mr X Ntकिनca - (Appointed 01/02/2014)	247 490	-	174 065	421 555
	3 596 524	534 833	2 514 127	6 645 484

21. Remuneration of councillors

Basic salaries	10 033 264	9 563 106
Travel, subsistence and other allowances	2 994 305	2 952 026
	13 027 569	12 515 132
Mayor	743 263	720 257
Chief Whip	634 505	595 294
Speaker of council	599 264	560 795
Councillors	11 050 537	10 638 786
	13 027 569	12 515 132

In-kind benefits

The salaries, allowances and benefits of the Councillors as disclosed are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with the Act.

The Mayor and Speaker have use of a Council owned vehicle for official duties.

Intsika Yethu Municipality

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Figures in Rand	2015	2014
22. Depreciation and amortisation		
Investment property	629 856	546 221
Property, plant and equipment	29 237 389	32 302 954
Intangible assets	203 133	198 539
Transferred to discontinued operations	-	(177 608)
	30 070 378	32 870 106
23. Finance costs		
DBSA loan	408 867	437 395
Other interest paid	129 425	108 959
	538 292	546 354
24. Debt impairment		
Contributions to debt impairment provision - exchange transactions	2 064 209	1 658 829
Contributions to debt impairment provision - non-exchange transactions	2 605 931	(156 443)
Transfer to discontinued operation	-	(1 900 260)
	4 670 140	(397 874)
25. Transfer of assets		
Transfer to Engcobo Local Municipality		
Property, plant and equipment - community hall	301 200	-

A community hall which previously belonged to Intsika Yethu Local Municipality was transferred to Engcobo Local Municipality as it fell in the demarcation for Engcobo Local Municipality.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
26. General expenses		
Advertising	500 468	585 260
Auditors remuneration	4 294 930	4 823 407
Bank charges	61 750	244 591
Books and publications	211 964	101 131
Catering	431 737	416 239
Cleaning	31 894	92 320
Community development	5 544 067	7 219 181
Computer expenses	25 038	-
Conferences and seminars	142 540	96 781
Consulting and professional fees	11 294 802	5 524 437
Electricity	1 400 500	576 923
Entertainment	381 152	168 348
Free basic electricity	2 435 092	1 382 154
Fuel and oil	2 135 777	2 076 602
Hire of equipment	1 353 461	1 348 297
IT expenses	999 521	1 509 942
Insurance	711 311	293 278
Landfill sites maintenance	143 072	976 196
Legal fees	2 152 914	1 394 002
Marketing	119 668	-
Motor vehicle expenses	1 725 103	1 025 060
Other expenses	658 067	717 457
Policy development	5 918 756	-
Postage and courier	2 150	1 949
Printing and stationery	343 344	504 469
Protective clothing	324 570	202 085
Security	192 158	126 042
Special programmes	5 266 378	5 474 232
Stores and materials	90 790	132 978
Subscription and membership	638 982	830 345
Telephone and fax	854 722	882 298
Traditional leaders	295 862	211 947
Training	410 085	659 439
Travel and accommodation	3 184 418	2 878 820
Valuation roll	682 035	536 842
	54 959 078	43 013 052

27. Discontinued operations

As of 1 July 2014, the municipality transferred the water services function back to the Chris Hani District Municipality. This resulted in a reduction of water services revenue and expenditure as detailed below. The revenue and expenditure has been separately disclosed in the statement of financial performance and the corresponding figures have been adjusted accordingly, as required by GRAP 100.

Surplus / Deficit

Revenue	-	30 768 430
Expenses	-	(28 550 668)
	-	2 217 762

The following assets and liabilities relating to the water services function were transferred to CHDM as at 1 July 2014 and no proceeds were received from CHDM:

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
27. Discontinued operations (continued)		
Assets transferred		
Property, plant and equipment	(3 286 316)	-
Receivables from exchange transactions	(3 884 456)	-
Inventory	(301 424)	-
Payables from exchange transactions	1 629 318	-
VAT receivable	1 260 548	-
	(4 582 330)	-
28. Cash generated from operations		
(Deficit) surplus	(7 337 046)	22 459 063
Adjustments for:		
Depreciation and amortisation	30 070 377	33 047 763
Profit or loss on sale of asset	734 571	1 107 088
Debt impairment	4 670 137	1 502 387
Movements in provisions	1 112 224	7 283 510
Discontinued operations	4 582 330	-
Interest on borrowings	408 867	437 395
Transfer of assets	301 200	-
Changes in working capital:		
Inventories	-	(210 348)
Receivables from exchange transactions	(1 279 974)	(3 949 809)
Receivables from non-exchange transactions	(1 808 189)	(1 534 359)
Other receivables	(1 812 524)	181 802
Payables from exchange transactions	10 811 291	(1 728 232)
VAT receivable	(2 096 879)	(551 981)
Unspent conditional grants and receipts	26 430	(9 463 726)
	38 382 815	48 580 553
29. Auditors' remuneration		
Fees	4 294 930	4 823 407

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
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30. Financial instruments disclosure

Categories of financial instruments

2015

Assets

	Financial assets at fair value	Financial assets at amortised cost	Total
Receivables from exchange transactions	-	679 642	679 642
Receivables from non exchange transactions	-	1 129 586	1 129 586
Cash and cash equivalents	1 690 009	-	1 690 009
	1 690 009	1 809 228	3 499 237

Liabilities

	Financial liabilities at fair value	Financial liabilities at amortised cost	Total
Other financial liabilities	-	8 071 208	8 071 208
Payables from exchange transactions	-	37 507 024	37 507 024
Unspent conditional grants	-	26 430	26 430
	-	45 604 662	45 604 662

2014

Assets

	Financial assets at fair value	Financial assets at amortised cost	Total
Receivables from exchange transactions	-	5 348 332	5 348 332
Receivables from non exchange transactions	-	1 927 328	1 927 328
Cash and cash equivalents	15 503 080	-	15 503 080
	15 503 080	7 275 660	22 778 740

Liabilities

	Financial liabilities at fair value	Financial liabilities at amortised cost	Total
Other financial liabilities	-	8 484 020	8 484 020
Payables from exchange transactions	-	27 917 899	27 917 899
	-	36 401 919	36 401 919

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
31. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Capital commitments	54 497 757	31 074 315
This committed expenditure will be financed from:		
Government grants	54 497 757	31 074 315
Total capital commitments		
Already contracted for but not provided for	54 497 757	31 074 315
Operating leases - as lessee (expense)		
Minimum lease payments due		
- within one year	738 362	1 304 348
- in second to fifth year inclusive	369 181	2 035 487
	1 107 543	3 339 835
Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.		
Operating leases - as lessor (income)		
Minimum lease payments due		
- within one year	821 988	235 490
- in second to fifth year inclusive	2 007 429	2 721
	2 829 417	238 211
32. Contingencies		
Contingent liability	345 594	520 000

The contingent liability relates to the following cases against the municipality:

- Zolani Baba vs IYM;
- Thanduxolo Nongawe vs IYM;
- Ayanda Mhlambiso and six others vs IYM;
- Ntonga AG vs IYM;
- Sisiwe Nyakaza vs IYM;
- Zixosile Stata vs IYM;
- Edward Sebenzile Mathanzima vs IYM;
- Vumele Ntsila vs IYM;
- Thandikhaya Stata vs IYM;
- City Hardware and Others vs IYM;
- Richard Tshaka vs IYM;
- The Sheriff of the Magistrate Court of Cofimvaba vs IYM;
- MEC for Department of Rural Development and land Reform, Eastern Cape and Others vs IYM;
- Magistrate, Queenstown & Vincemus Investment (Pty) Ltd t/a Kempton Truck Hire vs IYM;
- Unlawful Persons Unlawfully Erecting Structures on and Unlawfully Occupying that Portion of Remainder Erf 1 Nyanisweni Township
- Lulama Mvo vs IYM;

These cases are still pending and no judgement or final decision has been reached.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

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33. Related parties

Relationships

Councillor K. Vimbayo - Mayor

Mr Z. Shasha - Municipal Manager

Ms Vimbayo a security guard is a sister to the mayor
Mr M. Shasha a councillor of the municipality is a brother to the Municipal Manager

Mrs Shasha a store manager is the wife to the brother of Mr Z. Shasha

Mr Totongwana, the acting risk manager is brother to the Municipal Manager

M. Dangazele who is an intern is a son of councillor NF Dangazele

Mrs V Gulubele, wife of councillor M. Gulubele works as a general worker

N. Somdyala is a Public Participation officer is a sister of councillor N. Somdyala

B Myataza a student (finance) is a daughter of S Myataza

Mr Z. Rhotyi is a son of Councillor Rhotyi

L. Mkhunyana a student at ICT is a sister of councillor S. Mkhunyana

Mr L. Koyo is related to Mr Koyo (Senior manager in the technical department)

Mrs Toni (Senior accountant revenue) is the wife of councillor M Toni

Refer to page 1 for the names of councillors and other key management

Councillor N.F. Dangazele

Councillor M. Gulubele

Councillor N. Somdyala

Councillor S. Myataza

Councillor Z. Rhotyi

Councillor S. Mkhunyana

Mr Koyo

Councillor M. Toni

Members of key management

Related party transactions

Remuneration of key management: Refer to note 20 and 21 for the remuneration of councillors and other key management.

Intsika Yethu Municipality

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34. Prior year adjustments

The municipality received a qualified audit opinion in the previous year. The following actions were taken that have resulted in material changes to comparative figures:

Payables from exchange transactions and expenditure

In prior years, expenditure was not captured correctly on the accounting system as payments were captured directly against trade payables without the related expenditure being raised and expenditure was captured based on payment date and not invoice date. In other instances, the payable was raised, however when the payment was made, it was duplicated in the expenditure accounts, resulting in trade payables being overstated.

Furthermore, the municipality was previously not accounting for in-house projects correctly. The expenditure relating to the projects was expensed and an invoice in the name of the municipality was raised to capitalise the project expenditure. This resulted in payables and expenditure being overstated.

The municipality has investigated all trade payables and the related expenditure and has processed journals to correct the misstatements.

The unallocated receipts and payroll suspense accounts were also investigated and additional follow up was made on amounts that could not previously be allocated. Where possible, journals were processed to reallocate the deposits and expenditure to the correct accounts.

The restatement has been corrected retrospectively and comparative figures have been appropriately restated.

VAT receivable

A reconciliation between the amounts refundable by SARS and the general ledger was not performed in the prior year. Furthermore, VAT was not always captured correctly in the accounting records. A full review of the prior year general ledger accounts and a reconciliation between the VAT 201 forms and the general ledger has been performed, which resulted in adjustments being processed to correct misstatements identified.

The restatement has been corrected retrospectively and comparative figures have been appropriately restated.

Revenue

Amounts received for sale of land was recognised as revenue when the cash was received and not when the properties were transferred. An adjustment was made to reverse the revenue incorrectly recognised and raise a payable, until such time as the transfer is registered at the deeds office.

The restatement has been corrected retrospectively and comparative figures have been appropriately restated.

Discontinued operations

The water services function was transferred to Chris Hani District Municipality as from 1 July 2014. This was disclosed as a discontinued operation in the prior year financial statements. The portion of the leave pay and bonus accruals relating to the water services officials was incorrectly reflected as part of the continuing operations in the prior year. This has subsequently been corrected. Furthermore, the provision for impairment of water services receivables was also not disclosed as discontinued operations.

The restatement has been corrected retrospectively and comparative figures have been appropriately restated.

Investment property

Erf 99 Cofimvaba was incorrectly reflected as sold in the prior year. This has subsequently been corrected.

Erf 629 and 630: These buildings were incorrectly excluded from investment properties. These buildings have been valued by an independent valuer and included as investment properties.

The restatement has been corrected retrospectively and comparative figures have been appropriately restated.

Intsika Yethu Municipality

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Figures in Rand	2015	2014
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34. Prior year adjustments (continued)

Property, plant and equipment

In the prior year, some assets had been incorrectly depreciated and some assets had the incorrect cost price allocated to it.

Erf 72: This building was incorrectly excluded from owner occupied property. This building has been valued by an independent valuer and included as Property, plant and equipment, owner occupied.

The restatement has been corrected retrospectively and comparative figures have been appropriately restated.

Provisions

The provision for long service awards in the prior year incorrectly included some employees that are not entitled to long service awards. The provision was adjusted accordingly.

The restatement has been corrected retrospectively and comparative figures have been appropriately restated.

Commitments

In the prior year, the municipality did not adequately monitor the commitments and this resulted in the commitments being understated. During the current year, a full analysis was done of all contracts currently in place together with all payments made against these contracts. This resulted in a correction being made to the commitments previously disclosed.

Correction of errors resulted in the following prior year adjustments:

Personnel costs

Opening balance as previously reported	73 443 912
Prior year adjustment	(4 023 261)
Restated balance	69 420 651

Remuneration of councillors

Opening balance as previously reported	12 729 295
Prior year adjustment	(2 216)
Reclassification	(211 947)
Restated balance	12 515 132

Depreciation and amortisation

Opening balance as previously reported	32 856 520
Prior year adjustment	13 629
Reclassification	(43)
Restated balance	32 870 106

General expenses

Opening balance as previously reported	49 625 249
Prior year adjustment	(6 824 144)
Reclassification	211 947
Restated balance	43 013 052

Finance costs

Opening balance as previously reported	541 301
Prior year adjustment	5 053
Restated balance	546 354

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
34. Prior year adjustments (continued)		
Debt impairment		
Opening balance as previously reported	1 502 386	
Reclassification	(1 900 260)	
Restated balance	(397 874)	
Repairs and maintenance		
Opening balance as previously reported	2 302 324	
Prior year adjustment	757 215	
Reclassification	43	
Restated balance	3 059 582	
Loss on disposal of assets and liabilities		
Opening balance as previously reported	483 199	
Prior year adjustment	623 889	
Restated balance	1 107 088	
Government grants and subsidies		
Opening balance as previously reported	(173 300 297)	
Prior year adjustment	791 666	
Restated balance	(172 508 631)	
Other revenue		
Opening balance as previously reported	(735 417)	
Prior year adjustment	257 885	
Restated balance	(477 532)	
Property rates		
Opening balance as previously reported	(3 181 193)	
Prior year adjustment	(4 400)	
Restated balance	(3 185 593)	
Rental of facilities and equipment		
Opening balance as previously reported	(1 161 793)	
Prior year adjustment	(205 488)	
Restated balance	(1 367 281)	
Service charges		
Opening balance as previously reported	(518 224)	
Prior year adjustment	1 600	
Restated balance	(516 624)	
Discontinued operations		
Opening balance as previously reported	(3 228 313)	
Prior year adjustment	(889 709)	
Reclassification	1 900 260	
Restated balance	(2 217 762)	

Intsika Yethu Municipality

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Notes to the Financial Statements

Figures in Rand	2015	2014
34. Prior year adjustments (continued)		
Cash and cash equivalents		
Opening balance as previously reported	16 013 529	
Prior year adjustment	(510 449)	
Restated balance	15 503 080	
Investment property		
Opening balance as previously reported	71 870 049	
Prior year adjustment	1 435 951	
Restated balance	73 306 000	
Other receivables		
Opening balance as previously reported	241 391	
Reclassification	(241 391)	
Restated balance	-	
Payables from exchange transactions		
Opening balance as previously reported	(40 043 338)	
Prior year adjustment	11 884 048	
Reclassification	241 391	
Restated balance	(27 917 899)	
Property, plant and equipment		
Opening balance as previously reported	438 487 961	
Prior year adjustment	(5 095 867)	
Restated balance	433 392 094	
Intangible assets		
Opening balance as previously reported	358 564	
Prior year adjustment	(70 902)	
Restated balance	287 662	
Provisions		
Opening balance as previously reported	(3 222 227)	
Prior year adjustment	14 000	
Restated balance	(3 208 227)	
Receivables from exchange transactions		
Opening balance as previously reported	5 134 532	
Prior year adjustment	213 800	
Restated balance	5 348 332	
Receivables from non-exchange transactions		
Opening balance as previously reported	1 756 427	
Prior year adjustment	170 901	
Restated balance	1 927 328	

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Notes to the Financial Statements

Figures in Rand	2015	2014
34. Prior year adjustments (continued)		
Reserves		
Opening balance as previously reported	(538 675 916)	
Prior year adjustment	(6 075 192)	
Reclassification	1 150 433	
Restated balance	(543 600 675)	
VAT receivable		
Opening balance as previously reported	4 363 392	
Prior year adjustment	(1 826 286)	
Reclassification	(1 150 433)	
Restated balance	1 386 673	
Commitments		
Opening balance as previously reported	15 019 654	
Prior year adjustment	16 054 661	
	31 074 315	
Inventories		
Opening balance as previous reported	52 199 652	
Prior year adjustment	(140 000)	
	52 059 652	

Depreciation was incorrectly calculated in the prior year and depreciation had to be reversed as a result of certain properties being reclassified as inventory or investment property.

The adjustments have been corrected retrospectively and comparative figures have been appropriately restated.

35. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassifications has been disclosed in the prior period error note 34 above.

36. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Intsika Yethu Municipality

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36. Risk management (continued)

Credit risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the municipality to incur a financial loss.

Credit risk consist mainl of cash deposits, cash equivalents, receivables an unpaid conditional grants and subsidies.

Receivables are disclosed net after provisions are made for impairment and bad debts. Receivables comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. On-going credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to receivables are considered to be moderate due to the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by 'levying of penalty charges, 'demand for payment', restriction of service' and as a last resort, 'handed over for collection', whichever procedure is applicable in terms of Councils Credit Control and Debt Collection Policy.

All services are payable within 30 days from the invoice date. Refer to note 4 and 5 for all balances outstanding longer than 30 days. These balances represent all debtors at year end which defaulted on their credit terms.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2015	2014
Receivables from exchange transactions	679 642	1 927 328
Receivables from non-exchange transaction	1 129 586	1 386 673
Cash and cash equivalents	1 690 009	15 503 080

Market risk

Interest rate risk

The municipality interest bearing assets are included under cash and cash equivalents, trade receivables from exchange transactions and receivables from non-exchange transactions. The municipality's income and operating cash flows are substantially independent of changes in market interest rates due to the short term nature of the interest bearing assets.

At year end, the financial liabilities exposed to interest rate risk include those other financial liabilities disclosed in note 15 to the annual financial statements.

Balances with banks, deposits, call current accounts attract interest at rates that vary with the South African prime rate. The Municipality's policy is to manage interest rate risk so that fluctuations in variable rates do not have a material impact on the statement of financial performance.

Trade debtors in arrears are charged interest at a rate of 1% per month.

Surplus funds are invested with banks in interest bearing accounts refer to note number 8.

Interest rate sensitivity analysis

The sensitivity analysis below assess the exposure of the Municipality to floating interest rates. Assuming that those financial instruments affected remain unchanged for the full financial year and that all other methods and assumptions used remain unchanged, the impact of a 100 basis points change in interest would result in an increase or decrease of R34 992 (2014: R227 787) in net surplus for the period.

37. Events after the reporting date

The municipality is not aware of any events after 30 June 2015 that may have a material impact on the financial statements or require disclosure.

Intsika Yethu Municipality

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Notes to the Financial Statements

Figures in Rand	2015	2014
38. Unauthorised expenditure		
Opening balance	122 147 181	74 535 574
Unauthorised expenditure	19 568 494	47 611 607
Amount condoned	-	-
	141 715 675	122 147 181
39. Fruitless and wasteful expenditure		
Opening balance	817 363	695 023
Fruitless and wasteful expenditure	172 747	122 340
	990 110	817 363
Fruitless and wasteful expenditure relates to interest paid to the following service providers		
AGSA	29 307	97 878
Telkom	26 455	20 310
Department of Transport	1 454	-
Eskom	10 464	4 152
FNB	31	-
Tracker	89	-
SARS - interest	61 556	-
SARS - penalties	43 391	-
	172 747	122 340
40. Irregular expenditure		
Opening balance	34 202 067	19 956 372
Add: Irregular Expenditure - current year	45 593 987	14 245 695
Add: Irregular Expenditure - prior year identified in current year	10 200 603	-
Irregular expenditure condoned	-	-
	89 996 657	34 202 067

Irregular expenditure was incurred due to non-compliance with supply chain management policies and regulations.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
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41. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	896 606	848 307
Current year subscription - (SALGA)	772 040	863 106
Amount paid - current year	(951 606)	(814 807)
	717 040	896 606

Material non-compliance with MFMA

The municipality has not fully complied with the following material sections of the MFMA:

Section 15

Expenditure was not incurred in accordance with the approved budget and was in excess of the limits of the amounts provided for in the votes of the approved budget.

Section 65(2)(e)

Money owed by the municipality was not always paid within 30 days of receipt of invoice.

Section 122

Material errors in the financial statements were identified during the audit process, and have been corrected.

Sections 62(1)(d) and 32

Reasonable steps were not taken to prevent unauthorised and irregular expenditure and steps have not been fully implemented to manage the consequences of the irregular expenditure incurred.

Sections 62(1)(f)(iii)

A credit control and debt collection policy was not fully implemented.

Audit fees

Opening balance	3 294 012	1 489 638
Current year fee	4 925 527	5 596 562
Amount paid - current year	(7 323 749)	(3 792 188)
	895 790	3 294 012

VAT

VAT receivable	4 744 100	1 386 673
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VAT output payables and VAT input receivables are included in notes 6.

Councillors' arrear consumer accounts

The following Councillor had arrear accounts outstanding for more than 90 days at 30 June 2015:

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Bikitsha Mwezi Innocent	364	3 286	3 650
30 June 2014	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Bikitsha Mwezi Innocent	347	3 091	3 438

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
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41. Additional disclosure in terms of Municipal Finance Management Act (continued)

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations, any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council.

42. Deviation from supply chain management regulations

The following deviations from the Supply Chain Management Policy were approved by the Municipal Manager during the year:

Reason	Number of incidents	Amount
Emergency	12	1 278 492
Goods or services are produced or available from a single provider	121	2 062 276
Services procured for media adverts	66	485 058
Services or goods procured on a rotational basis	153	908 409
Services related to training	10	586 098
	362	5 320 333